



DEFENSE BUSINESS BOARD

Report to the Secretary of Defense

Modernizing the Military Retirement System

Report FY11-05

- **Recommendations to optimize the Department's military retirement system**
-

Modernizing the Military Retirement System

TASK

The Secretary of Defense is committed to increasing the efficiency and effectiveness of the Department of Defense's (DoD) processes and operations. In May 2010, Secretary Gates tasked the Defense Business Board (herein referred to as "the Board") to review current Department policies and practices and identify options to materially reduce overhead and increase the efficiency of the Department's business operations (see **Tab A**). In response to this tasking, the Chairman of the Board established a Task Group to assess the military retirement system and develop potential alternatives that would enable the system to remain fiscally sustainable while recruiting and retaining the highest performing personnel required for our Nation's defense. A copy of the Terms of Reference outlining the scope and deliverables for the Task Group can be found at **Tab B**.

Mr. Richard Spencer served as the Task Group Chair. The other Task Group members were Patrick Gross, David Langstaff, Philip Odeen, Mark Ronald, Robert Stein, and Jack Zoeller. Catherine Whittington served as the Board Staff Analyst.

PROCESS

The Task Group conducted interviews with many of the Department's current senior leaders, former DoD and other government officials, several defense attachés from foreign ministries, and officials from institutes and government agencies. The Task Group also reviewed a multitude of analyses, studies, and recommendations generated by both government and private research institutions addressing military retirement over the past 30 years.

The Task Group's draft findings and recommendations were presented to the Board for deliberation at the July 21, 2011 quarterly Board meeting where the Board voted to approve the recommendations. See **Tab C** for a copy of the brief presented to the Board.

FINDINGS

The Task Group began by assessing the origins of the military retirement system and then compared it to the present environment. The current military retirement system has not been meaningfully modified or adjusted to reflect the creation of the All Volunteer Force. The system was designed in an era when life spans were shorter, draft era pay was substantially less than civilian sector pay, second careers were less common, and skills acquired during military service were not transferrable to the private sector.

The Task Group also compared the current military retirement system to various public, private, and foreign military systems. The Task Group observed that the present retirement system is tied to base pay and has therefore increased in direct proportion to the substantial increases in base pay that have occurred over the past ten years. As a result of these increases, today's regular military compensation is higher than that of average civilians with the same level of education. Enlisted and officer pay now ranks in the top quartile of all high school graduates and college graduates, respectively (see **Appendix A at Tab C**). As base pay increases, the size of the future retirement liability also increases.

The current system is based upon a 20 year cliff vesting structure. Those who serve less than 20 years receive no benefit, while those who serve for 20 years earn a lifetime benefit of 50 percent of base pay and those who serve for 35 years earn a lifetime benefit of 87.5 percent of base pay, all of which is regularly adjusted for inflation. For those serving more than 20 years, the retirement contribution is approximately 10 times greater than the private sector. Whereas average private sector pension contributions range from 4 to 12 percent per year, military retirement benefits equate to an approximate contribution of 75 percent of annual pay per year.

The Task Group identified three features of the current military retirement system that point to the need for change.

First, the current military retirement system is unfair. For example, 83 percent of those serving in the military will receive no retirement benefit. Military personnel serving 5, 10, or 15 years will depart from service with no

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benefit or pension. This cohort includes the majority of troops who have engaged and will engage in combat. Conversely, only 17 percent of the All Volunteer Force serves for more than 20 years, and they are endowed with a lifetime benefit. The distribution varies between officer and enlisted personnel; 43 percent of officers and 13 percent of enlisted personnel have historically received a pension.

Second, the current military retirement system is inflexible and has disadvantages with regard to force shaping. The binary nature of the 20 year cliff vesting requirement creates a strong incentive for personnel to leave shortly after 20 years. Interviews indicated that, in some areas of specialization, military service members are only then reaching their peak performance at that point. Data from the Office of the Secretary of Defense (OSD) Office of Actuaries shows that with 20 year cliff vesting, 76 percent of personnel leave after serving between 20 and 25 years. At the same time, the cliff vesting requirement makes it more difficult to release personnel with 15 years or more of service. In periods of downsizing, as in the 1990s, the Department has therefore had to seek special payment authority to ease the transition out of the military.

Third, in light of the budget challenges DoD is currently facing, the military retirement system appears increasingly unaffordable. In FY11, the retirement plan will accrue 33 cents for each dollar of current pay, for a total of \$24 billion. As shown in the table and graph on page 4, these costs are rising at an increasingly unsustainable rate.

According to the OSD Office of the Actuary, annual military retirement payments are forecasted to increase from \$52.2 billion in 2011 to \$116.9 billion in 2035. As of today, the total life cycle program costs will grow from \$1.3 trillion, of which only \$385 billion is presently funded, to \$2.8 trillion by FY34 (see **Appendix D at Tab C**). Increases in inflation and life expectancy will further increase military retirement benefit costs. Moreover, as presently structured, any increase to base pay has an automatic and dramatic impact on future retirement liabilities.

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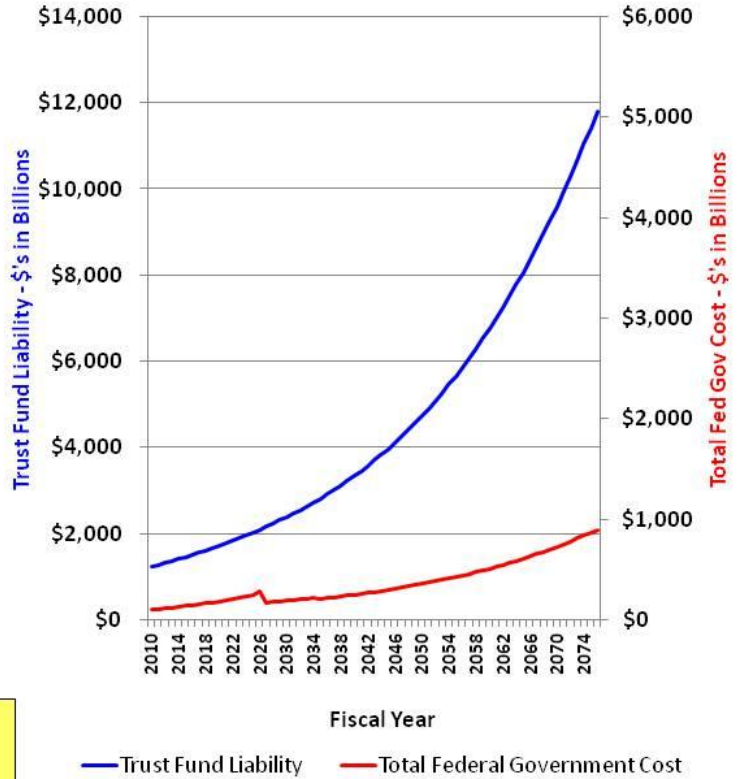
Military Retirement Trust Fund Under Current Plan

| | Today FY11* | Today's Future FY34* |
|--|----------------|----------------------------|
| DoD Service Payment | \$19.8 | \$42.3 |
| Treasury Service Payment | \$4.8 | \$10.2 |
| Treasury Interest Payment | \$21.8 | \$149.8 |
| Treasury Unfunded Liability Amortization Payment | \$61.4 | \$14.8 |
| Total Federal Government Cost | \$107.8 | \$217.1 |
| Fund Liability | \$1,269.9 | \$2,720.3 |

*Numbers are in billions

Assumptions:

- Vesting year 20
- Average contribution is 33% of total payroll



Source: OSD Office of Actuary

RECOMMENDATIONS

The Board recognizes that retirement benefits are an important component of overall compensation. Other elements, such as current compensation, and other benefits (e.g. healthcare and education) constitute the broad compensation package. Any changes in military retirement should be considered in the context of the overall compensation package. The Board offers, as part of that process, the following recommendations to modify the military retirement system.

1. The Department should establish a new structure for the military retirement system, based on annual contributions. One model for this new structure is the existing Uniformed Military Personnel Thrift Savings Plan (TSP).

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2. Contributions to the new plan would be made by the government. The amount of that contribution should be set at a rate to support retention in an ever changing global environment. For example, the government contribution could include an adjustment that would increase the contribution for longer serving military personnel to aid in retention. For modeling purposes only, the Task Group's analysis used an annual government contribution equivalent to 16 percent of military annual base pay – approximately two times the amount of annual contribution in the private sector. Investment options could also vary from 401(K) type plans to annuities or cash balance accounts.
3. Military members would also be able to make contributions to their own accounts. Furthermore, these retirement accounts would be transportable into the private sector and back into the military.
4. DoD contributions could vary depending on the needs of the services, such as larger contributions at certain retention gates, specific Military Occupational Specialty, or other demands to assist in force shaping.
5. The individual account would provide for rights of survivorship.
6. Fully disabled participants would qualify for an immediate pension, which would be formulated with VA benefits, as presently structured.
7. The plan would need to establish periods for initial vesting and for pay-out. One approach would be for a plan to begin vesting after the first recruitment period and become payable at ages 60 to 65 (or the Social Security age). The plan could allow for partial withdrawals or loans to cover education, healthcare, or other specified unplanned events or emergencies. Similar to most private sector severance plans, upon retirement, a time formulated transition payment option should be considered to facilitate the change to a new career.
8. This plan would apply to Reserve and Active Duty personnel. Retired and disabled personnel would be unaffected.

The Board recognizes the magnitude of the change involved in shifting to a different structure for the retirement system. One key option

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for this change is a transition approach of which the Board made no specific recommendation. As input to decision-makers, the Board modeled two alternatives: the first which grandfathers all current military personnel in the existing system, and the second which involves a more rapid transition, but without loss of accrued benefits (see **Appendix E** and **F**, respectively, at **Tab C**).

Respectfully submitted,

A handwritten signature in black ink that reads "Richard V. Spencer". The signature is written in a cursive style with a long horizontal flourish at the end.

Richard Spencer
Task Group Chair

TAB A

**SECRETARY OF DEFENSE
TERMS OF REFERENCE –
“REDUCING OVERHEAD AND IMPROVING BUSINESS
OPERATIONS”**

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SECRETARY OF DEFENSE
1000 DEFENSE PENTAGON
WASHINGTON, DC 20301-1000

MAY 17 2010

MEMORANDUM FOR THE CHAIRMAN, DEFENSE BUSINESS BOARD (DBB)

SUBJECT: DBB Terms of Reference – “Reducing Overhead and Improving Business Operations”

I remain concerned over the ability of the Department of Defense to sustain current force structure levels and to continue critical modernization of military capabilities given the current and projected fiscal climate. For these reasons, it is imperative that the Department identify and pursue every opportunity to economize and increase the efficiency of its business operations.

As the Department’s independent advisory board for economic and business affairs, I request you form a task group to provide recommendations on options to materially reduce overhead and increase the efficiency of the Department’s business operations. This effort should identify both short- and long-term opportunities to achieve budget savings as well as make process or organizational changes that will yield long-term operational efficiencies.

The offices of Under Secretary of Defense (Comptroller), Cost Assessment and Program Evaluation, and Director of Administration and Management will serve as your principal support resource and will provide assistance as necessary. Other Department of Defense elements will provide assistance if determined to be necessary.

This effort should be completed by September 1, 2010, with an interim briefing to me by July 1, 2010.

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TAB B

**CHAIRMAN, DEFENSE BUSINESS BOARD
TERMS OF REFERENCE –
“MILITARY RETIREMENT–ALTERNATIVE PLANS”**

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DEFENSE BUSINESS BOARD
1155 DEFENSE PENTAGON
WASHINGTON, DC 20301-1155

November 10, 2010

MEMORANDUM FOR RICHARD SPENCER

SUBJECT: Terms of Reference – “Military Retirement-Alternative Plans”

The Secretary of Defense is committed to increasing the efficiency of resource allocation within the Department of Defense in order to better align defense dollars with real-world military needs. In this ongoing environment of constrained resources, each component of the Department’s budget must be reviewed to support the Secretary’s goals. Therefore, a significant portion of the Department’s personnel budget particularly, military pay and retirement should be appraised and benchmarked.

To support the Secretary’s efficiency initiatives, I request you lead the Defense Business Board’s “Military Retirement-Alternative Plans” Task Group. You should begin by reviewing the current reform thinking on military pay and benefits. This research and analysis will help you to provide recommendations for optimizing the Department’s military pay and retirement system. Please provide recommendations that enable the system to be fiscally sustainable while recruiting and retaining the highest performing personnel required for our Nation’s defense.

The Task Group will consist of you, Patrick Gross, Phil Odeen, Steve Reinemund, Mark Ronald, Robert Stein, and Jack Zoeller. Please provide me with your findings and any recommendations to improve our processes by the Defense Business Board’s Quarterly Meeting in April 2011. Colonel Michael N. Pierce will serve as the Task Group’s Military Assistant.

As a subcommittee of the Board, and pursuant to the Federal Advisory Committee Act of 1972, the Government in the Sunshine Act of 1976, and other appropriate federal regulations, this Task Group shall not work independently of the Board’s charter and shall report its recommendations to the full Board’s public deliberation. The Task Group does not have the authority to make decisions on behalf of the Board, nor can it report directly to any federal officer who is not also a Board member. The Task Group will avoid discussing “particular matters” according to Section 208 of Title 18, U.S. Code.


Michael J. Bayer
Chairman



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TAB C

**FINDINGS AND RECOMMENDATIONS
PRESENTED TO THE BOARD
ON JULY 21, 2011**

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DEFENSE BUSINESS BOARD



Modernizing the Military Retirement System

Task Group

July 21, 2011

Task Group Overview

Terms of Reference

In order to support the Secretary of Defense's efficiency initiatives, review the current structure and function of the military retirement system. Begin with a review of the current reform thinking on military retirement benefits. This research and analysis will help to provide recommendations for optimizing the Department's military retirement system.

Deliverables

Provide recommendations that will enable the system to be fiscally sustainable while recruiting and retaining the highest performing personnel required for our nation's defense.

Task Group Members

Richard Spencer (Chair)

Patrick Gross

David Langstaff

Philip Odeen

Mark Ronald

Robert Stein

Jack Zoeller

DBB Staff Analyst

Catherine Whittington

Methodology: Interviews

- **Current DoD**
 - Vice Chairman, Joint Chiefs of Staff (VCJCS)
 - Chief of Staff of the Air Force (CSAF)
 - Chief of Naval Operations (CNO)
 - Commandant of the Marine Corps (CMC)
 - Chief of Navy Reserve
 - Chief of Navy Personnel, DCNO, Manpower, Personnel, Training & Education, N1
 - Director, Plans and Resources, Office of the Deputy Chief of Staff of the Army, G1
 - Military Deputy for Budget, Office of the Assistant Secretary of the Army, Financial Management & Comptroller (ASA(F&MC))
 - Under Secretary of Defense for Personnel and Readiness (USD(P&R))
 - Director for Military Compensation (OUSD(P&R))
 - Joint Chiefs of Staff Working Group
 - Members who wrote the 11th Quadrennial Review of Military Compensation (QRMC)
- **Former DoD and Government Officials**
 - HON John Hamre
 - HON Ken Krieg
 - ADM Vern Clark, USN (Retired)
 - HON David M. Walker
 - HON Richard Danzig
- **Defense Ministries**
 - Canada
 - France
- **Institutes and Government Agencies**
 - Institute for Defense Analysis (IDA)
 - Congressional Budget Office (CBO)
 - Center for Strategic and International Studies (CSIS)
 - Center for Strategic and Budgetary Analysis (CSBA)
 - RAND Corporation
 - Office of Thrift Savings Plan
 - OSD Office of the Actuary

Where We Are Today

- The All Volunteer Force has proven to be an outstanding success
- Congress has shown consistent support for the military through increases in both compensation and benefits
- Military compensation is higher than that of average civilians with similar education levels (see **Appendix A**)
 - Enlisted pay ranks in the top quartile of that of high school graduates
 - Officer pay ranks in the top quartile of that of college graduates
- Retiree healthcare (TRICARE) is significantly more generous than civilian programs
- Military retirement exceeds levels in the private sector
- 83% of military personnel receive no retirement benefits



Findings

DoD has maintained the structure of its retirement benefits, which was created prior to the All Volunteer Force

- Retirement plans are an important component of both private and public sector compensation systems
- Over the last few decades, private sector plans have shifted from defined benefit to defined contribution to address longer life spans and unaffordable costs
- The military retirement system has not materially changed for over 100 years
 - The current military retirement system was designed for an era when life spans were shorter,
 - Pay was not competitive with civilian pay, and
 - Second careers were rare since military skills did not transition easily to the private sector
- Military retirement funds are not able to be invested in higher yielding equities and bonds

Findings (Continued)

Military retirement is more generous and expensive compared to the private sector

- DoD pays retirees 40 years of retirement benefits for 20 years of service
 - Military skills are transferrable to the private sector
 - Second careers are now common for those retiring in their 40s
 - Payout after 20 years makes retention difficult – 76% leave between years 20 and 25
 - 20 years of service earns a lifetime of payments of 50%, ramping up to 87.5% for 35 years of service
- Retirement funds accrued for personnel serving less than 20 years are effectively applied to the benefits of those serving more than 20 years
- For those serving more than 20 years, the retirement contribution is 10 times greater than the private sector
 - Average private sector pension contributions range from 4-12% per year; military retirement benefit equates to 75% of annual pay per year for those who retire
 - Immediate payout after 20 years has no comparison in the private sector

For FY11, total government contribution will be \$46B**

**Does not include \$64.1B in unfunded liability amortization payment



Findings (Continued)

“One Size Fits All” has structural disadvantages

- Surveys consistently report that military retirement has little value in recruitment or retention for at least the first 10 years of service
- The current plan is highly inflexible and especially poorly suited for periods of significant change (e.g., when downsizing the force)
 - It will be very difficult to release personnel with 15 or more years of service, yet these age groups are a probable target for downsizing
 - As a result, DoD will likely require special pay to ease transitioning out of the military (as was done in the 1990s), therefore, increasing costs
- The current system does not compensate for those in high risk situations or extenuating circumstances (e.g., combat duty, hardship tour, and separation from family)



Assessment

The Retirement Plan is Unfair

- The military retirement system lacks fairness in several dimensions.
 - Personnel serving 5, 10, even 15 years receive no retirement pay. Those serving 20+ years are endowed with a lifetime benefit.
 - The risky nature of military service is an important justification for the 20-year plan. However, most of the troops engaged in combat serve far less than the required 20 years. (Only 12%-13% of enlisted troops earn retirement pay).
- Retirement is a cost element attributable to each Service member, yet only 17% receive this benefit.
- There is no difference in retirement benefits between those who have served in high risk and low risk positions.

83% of those who serve will receive no retirement benefit

Assessment (Continued)

The Retirement Plan is Unaffordable

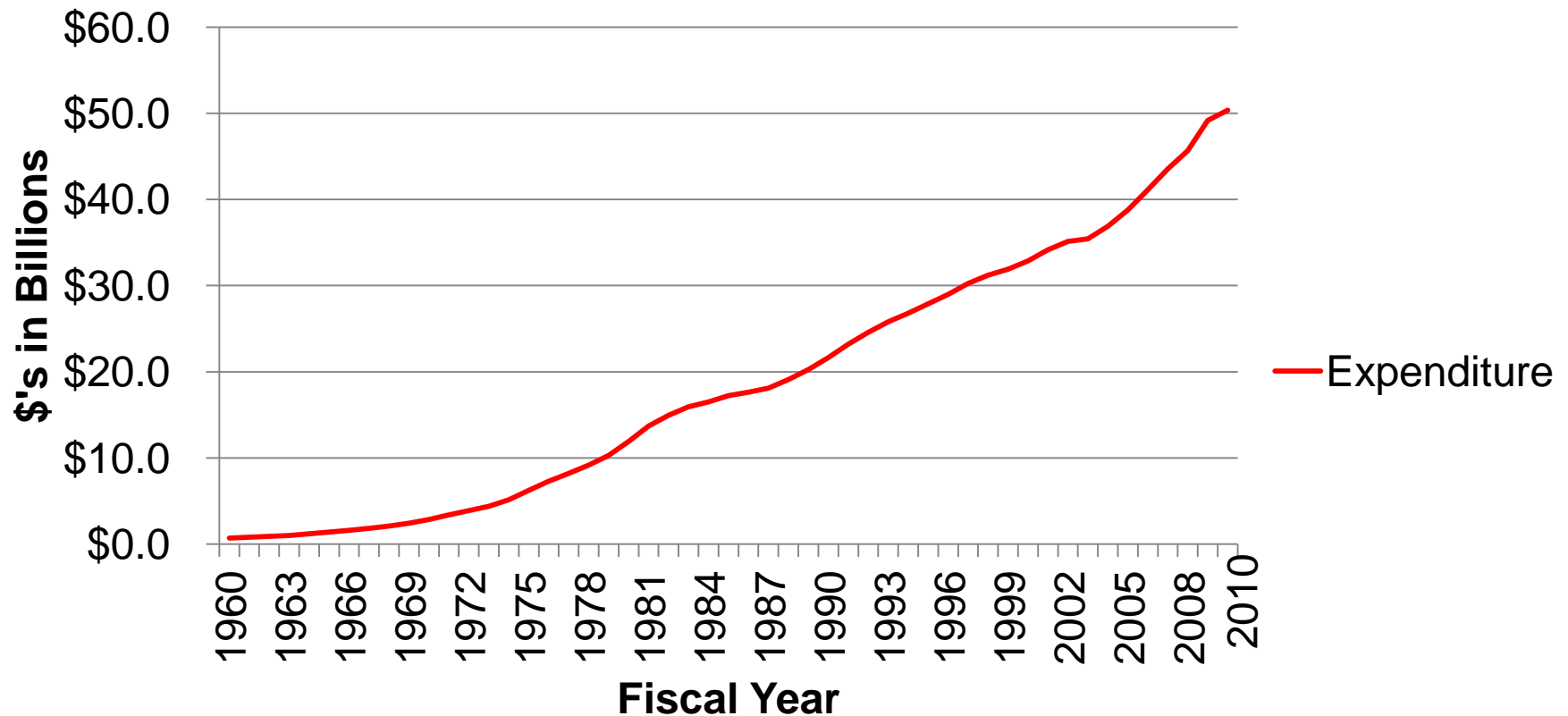
- The cost of military retirement will seriously undermine future military warfighting capabilities
- For each dollar of current pay, the retirement plan accrues 33 cents, for a total of \$24B** in FY11
- Costs are rising at an alarming rate; future liability will grow from \$1.3T (of which \$385B is funded) to \$2.7T by FY34
- Increases in inflation and life expectancy will further increase military retirement benefit costs
 - +1% inflation increase = \$3B military retirement benefit service cost increase
 - +1 year of life expectancy = \$300M military retirement benefit service cost increase

Action must be taken to contain these spiraling costs or they will undermine future warfighting capabilities

**Does not include Treasury interest of \$22B

Military Retirement Trust Fund Payments/Expenditures

Military Retirement Trust Fund Expenditures by Fiscal Year



Military retirement payments continue to increase (\$50B in 2010; \$108B in 2035)

Source: Valuation of the Military Retirement System, September 2009, OSD Office of the Actuary, Dec 10

Assessment (Continued)

The Retirement Plan is Inflexible

- The current system cliff vests at 20 years of active service
- Personnel with fewer years of service earn no retirement
- Only 7% of personnel leave between the 15th and 20th year of service, compared to 76% of those serving 20 to 25 years
- Years served is the only factor in the retirement benefit calculation, regardless of whether the Service member's career risk profile is in an administrative role or a high risk combat role
- Modifying the retirement system would create an effective force shaping tool



Recommendation

A Comprehensive Solution: A New Defined Contribution Plan

- The most flexible and readily available plan would be based on the existing Uniformed Military Personnel Thrift Savings Plan (TSP), but with the government providing annual contributions (see **Appendix C**)
 - Payments into the plan would include an option for military member contributions
 - Plan accounts would be transportable into the private sector and back into the military
- DoD contributions could vary depending on circumstances, such as larger contributions for personnel at risk or on hardship tours
- The Defined Contribution Plan would provide flexibility to assist in force shaping and sizing
- The individual account would provide for rights of survivorship
- Fully disabled participants would qualify for an immediate pension formulated with VA benefits as presently structured

Key Elements of A New Defined Contribution Plan

- Establish a mandatory TSP program for all Military Service Personnel
 - The government contribution, including extra incentives, would be funded at a percentage level comparable to the highest end of a private sector pension plan
 - The plan would vest after 3 to 5 years, payable at age 60 to 65 (or Social Security age)
 - Partial withdrawals (or loans) to cover education, healthcare, or other specified emergencies
- Plan would be risk adjusted to recognize combat roles, family separation, and other unusual duty, for example:
 - Double contributions for years in combat zones or high risk positions
 - Greater contributions for hardship tours
 - Retirement age could be lowered using similar metrics
- Like most private sector severance plans, the option of a time formulated transition payment should be considered to facilitate the change to a new career
- Comprehensive solution would apply to Reserve as well as Active Duty personnel

The new plan would enhance fairness and flexibility, and provide a more affordable cost structure

Attributes of A New Defined Contribution Plan

■ Individual Features

- Uniformed Military Personnel TSP individual account
- Payout options to include: traditional payout, annuity, or lump sum
- Partial payout options to include: education, home ownership, or business acquisition
- Right of survivorship transferability upon death

■ Military Service Features

- Affordable, fair, and flexible solution to current system
- Risk profile multiplier and vesting option provides tool for force management either encouraging or discouraging retention
- Active Duty and Reserves under one plan

■ Coverage

- No impact on existing retired population
- Fully disabled veterans not effected by new plan

■ Transition Alternatives for All Present Active Duty Personnel

- Higher Cost Alternative – No transition (see **Appendix E**)
- Lower Cost Alternative – Immediate transition with no loss of accrued benefits (see **Appendix F**)

Conclusions

- The current military retirement system is out of date.
 - It is unfair, unaffordable, and inflexible.
 - As costs escalate, the continuation of the system will seriously erode future military capabilities.
- A comprehensive alternative that would fix these shortcomings is required.
 - All military personnel earn retirement benefits.
 - Costs are far more manageable in future years.
 - Contributions are flexible and reward longer service, high risk assignments, and family separation.
 - Retired and disabled members would be unaffected. They would still receive current benefits.
- Modifying the existing system to reduce cost would have to be dramatic to address affordability. The system would continue to be unfair and inflexible.
- Implementation should be phased-in to ensure current military personnel are treated fairly with due consideration to cost.

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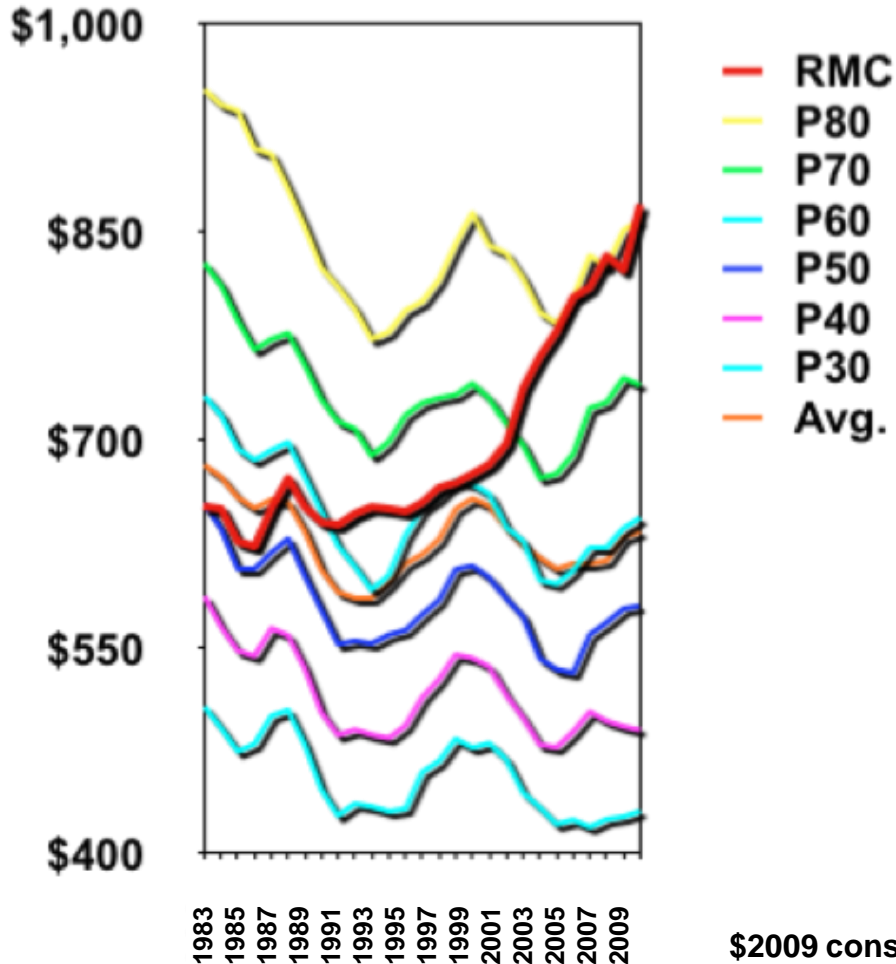
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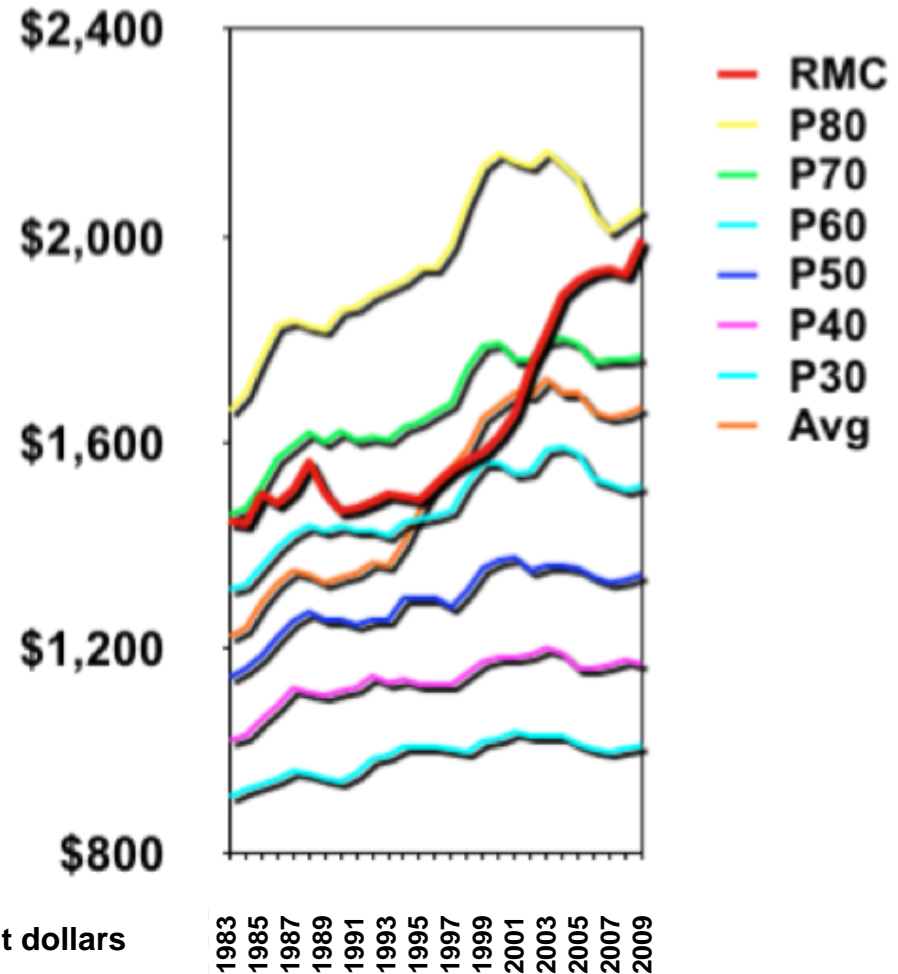
Business Excellence In Defense of the Nation

Appendix A: Regular Military Compensation (RMC) versus Private Compensation

Wage Percentiles of Males, Ages 22-26, with High School Education in Production/Craft Occupations



Wage Percentiles of Males, Ages 32-36, with Four or More Years of College in Professional/Technical Occupations



Source: RAND National Defense Research Institute

Appendix B: Addressing Affordability of the Current System

- Amending the existing system for new entrants can have meaningful impact on sustainability while the volunteer force remains competitive with private markets
 - Index payout of retirement benefits to 67 years of age
 - Propose a one time Transition Payment paid at separation (e.g. one months salary for each year served)
 - Adjust benefit multiplier to 2.0 (40% of base Pay) from present 2.5 (50% Base Pay)
 - By comparison the following are averages of multipliers: private sector 1.1, public and municipal 1.5, and fire and police 2.0
 - Adjust High 3 computation to High 5
- These changes fail to address the inflexibility and unfairness of the current system

| Cumulative Savings Over 20 Years | | | | |
|----------------------------------|-----------|----------------|---------|----------|
| | Delay Pay | 2.0 Multiplier | High 5 | Total |
| FY32 | \$193.3* | \$49.9* | \$10.9* | \$254.1* |

40% cumulative savings by FY32

*Numbers are in billions

Source: OSD Office of Actuary

Appendix C: 2011 Uniformed Military Personnel Thrift Savings Plan

- \$16,500 annual tax-deferred contribution limit
 - Applies to Member contributions from basic, special, incentive and bonus pays
 - Does not include service matching contributions (for the few Service members receiving matching)
- \$5,500 annual tax-deferred “Catch-up” contribution
 - Applies to members who are (or will be) age 50 or older
 - Deducted from taxable basic pay, submitted as tax-deferred to the TSP
 - Catch-up contribution is in addition to the elective deferral and annual additions limit
- \$49,000 annual maximum contribution limit
 - Applies when member contributes while in a designated combat zone depositing tax-exempt contributions to the TSP (which accrue tax-deferred earnings)
 - Limit includes tax-deferred and tax-exempt member contributions from basic, special, incentive and bonus pays (but does not include catch-up contributions)
 - Limit applies to member contributions and any Service matching contributions received
 - Does not include amount contributed as catch-up during the year

Appendix D: Trust Fund Under Current Plan

| | Today FY11* | Today's Future FY34* |
|--|----------------|-------------------------|
| DoD Service Payment | \$19.8 | \$42.3 |
| Treasury Service Payment | \$4.8 | \$10.2 |
| Treasury Interest Payment | \$21.8 | \$149.8 |
| Treasury Unfunded Liability Amortization Payment | \$61.4 | \$14.8 |
| Total Federal Government Cost | \$107.8 | \$217.1 |
| Fund Liability | \$1,269.9 | \$2,720.3 |

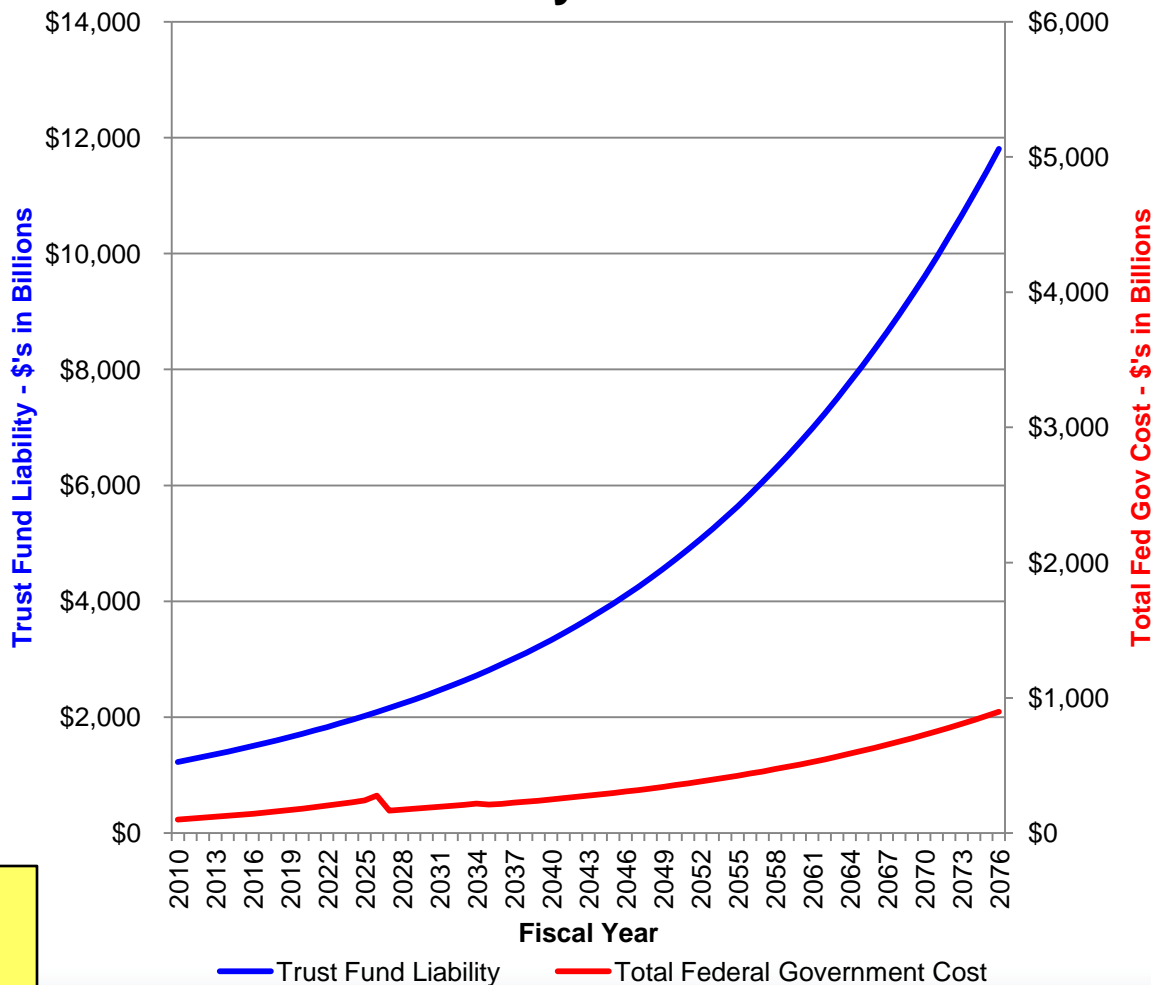
*Numbers are in billions

Assumptions:

- Vesting year 20
- Average contribution is 33% of total payroll

Source: OSD Office of Actuary

Military Retirement Trust Fund Under Current Plan by Fiscal Year



Appendix E: Trust Fund Under Revised Plan if All Current Active Duty Remain on Current Plan

| | Today FY11* | Today's Future FY34* |
|--|-------------|----------------------|
| DoD Service Payment | \$18.9 | \$21.0 |
| Treasury Service Payment | \$4.3 | \$10.4 |
| Treasury Interest Payment | \$21.7 | \$100.7 |
| Treasury Unfunded Liability Amortization Payment | \$61.4 | \$14.8 |
| Total Federal Government Cost | \$106.3 | \$146.9 |
| Fund Liability | \$1,266.7 | \$1,800.0 |

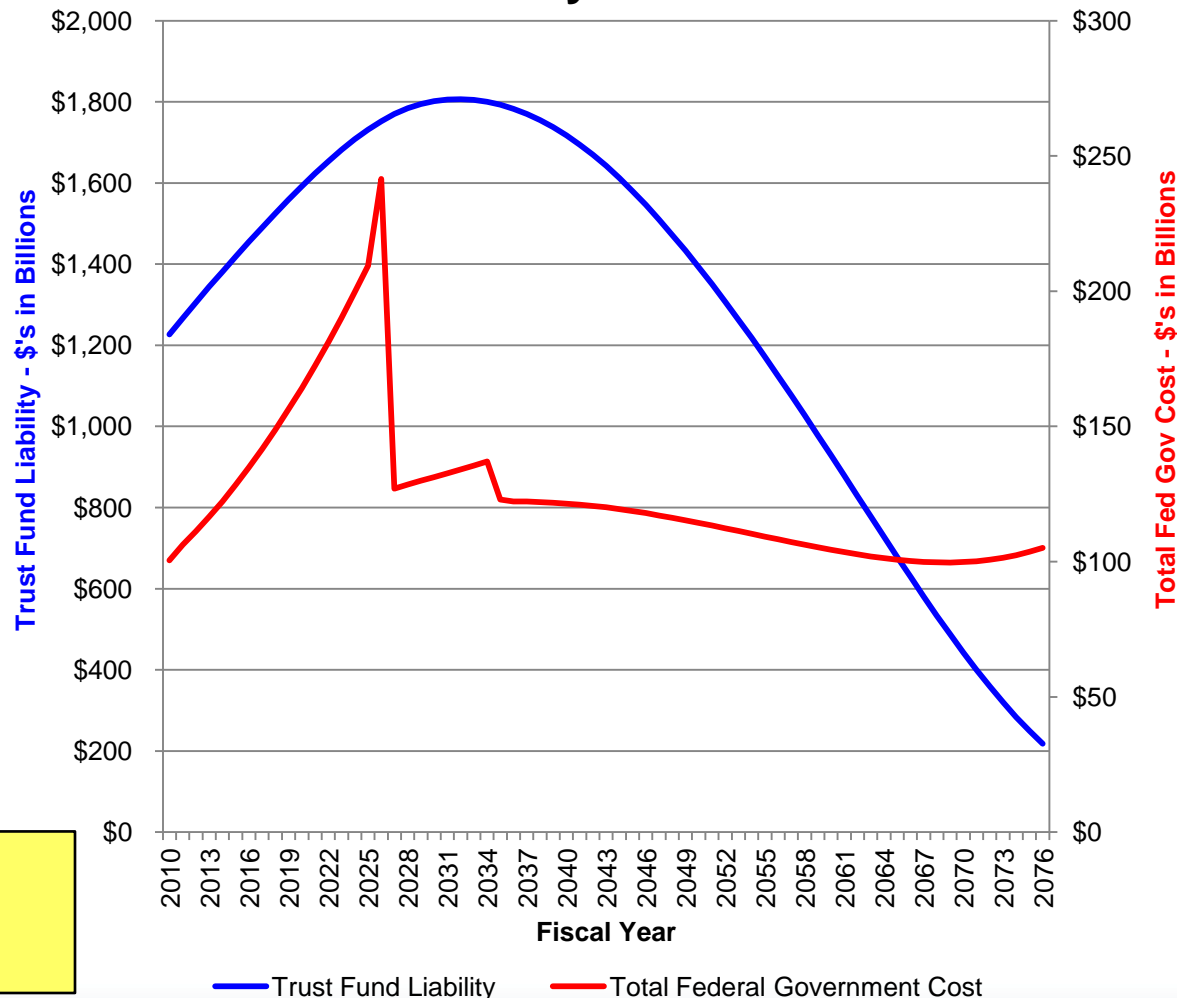
*Numbers are in billions

Assumptions:

- Average vesting year 4
- Active duty remains on current plan
- New recruits go on revised plan

Source: OSD Office of Actuary

Military Retirement Trust Fund Under Revised Plan by Fiscal Year



Appendix F: Trust Fund Under Revised System if All Active Duty Personnel Transition Immediately

- Modeled after private sector approach and yields a viable lower cost alternative
- Rapid transition to new plan for total active force
- Preserve accrued benefit from “old plan” but no further accrual
- For those with less than 20 years – proportional benefit under “old plan” if they stay for 20+ years (example: 10 years of service would result in 10/20 of the old plan benefit at old vesting date or 25% of pay at retirement)
- All active duty personnel start to accrue new benefit for the balance of their service payable under new terms (age 65 nominal)
- Average DoD contribution under revised system includes all extra incentives (16.5% of total pay)



Appendix F: Trust Fund Under Revised System if All Active Duty Personnel Transition Immediately (Continued)

| | Today FY11* | Today's Future FY34* |
|--|----------------|-------------------------|
| DoD Service Payment | \$27.2 | \$20.4 |
| Treasury Service Payment | \$4.3 | \$10.4 |
| Treasury Interest Payment | \$21.7 | \$68.5 |
| Treasury Unfunded Liability Amortization Payment | \$61.4 | \$12.5 |
| Total Federal Government Cost | \$114.6 | \$111.8 |
| Fund Liability | \$1,125.0 | \$1,217.9 |

*Numbers are in billions

Assumptions:

- Average vesting year 4
- New recruits on new plan
- Active duty immediately transition

Source: OSD Office of Actuary

Military Retirement Trust Fund Under Transition Plan by Fiscal Year

